Final

LEGISLATURE LIBRARY
AUG 3 1983
EDMONTON

ORAL SUBMISSION

TO THE HOUSE OF COMMONS STANDING COMMITTEE ON TRANSPORT

RE: The Western Grain Transportation Act, Bill C-155

Edmonton

August 2, 1983

The Government of Alberta

Alberta Agriculture

Alberta Economic Development

Good Morning:

Mr. Chairman, members of the Commons Standing Committee on Transport. On behalf of the Government of Alberta I welcome you to the Province, and say we are pleased that you are holding public hearings in Edmonton on a matter that is crucial to the basic economic future of this province. We are also encouraged to believe that the holding of such hearings is a sign that your Committee is prepared to make a conscious and determined effort to improve Western Canada's prospects for economic development and to encourage improvement and efficiency in the grain handling and transportation system.

Mr. Chairman, despite having many significant opportunities, Alberta's economy faces an ongoing challenge -- transportation. The province is located farther from tidewater, without direct water access, than most of its world competitors. In order for Alberta to compete effectively, the province requires the most cost-efficient and productive transportation system possible. No other challenge has similar implications for Alberta or Western Canada, and unless this transportation challenge is soon met, opportunities and associated economic benefits may be lost.

Mr. Chairman, in our brief we have described Alberta's primary and secondary agricultural industries. As well, we have provided a comprehensive summary of events that lead from the building of a transcontinental railway to the drafting of Bill C-155, which has brought us here today. I will leave most of that material for the Committee to read at leisure.

The history of the Statutory Grain Freight Rate issue, more commonly called the problem of the Crow Rate, is at best complicated. It is a story that has romance, tragedy, suspense, success and failure. Indeed, its threads

even trace much of the history of Western Canada, bringing out some of the best, and some of the worst in East-West relations. The Crow is a story of politics and of farmers, of industry and of marketing, of the desire of both individuals and companies to make a dollar.

The problem is -- the Crow today means even more. It impacts employment, capital investment, economic development, agricultural processing and government revenues and expenditures. It has been highlighted in many studies and reports: the Crow costs almost every segment of Canadian agriculture from the primary producer to the government, and in resolving the issue we believe the solution must provide needed incentives for tomorrow's grain handling and transportation system, not just bandaids to patch up yesterday's problems.

On February 1, 1983, the Federal Minister of Transport announced the Western Transportation Initiative and I quote:

"Government expects that its decisions will provide a major stimulus to economic development in the 1980's and beyond, as a result of:

1. Major investment programs by the railways stemming from the new system to compensate them for moving grain;
2. The reduction in distortions in the western agricultural economy, which should result in more processing, livestock production and crop diversification;
3. Additional measures to promote agricultural development across Canada, and to enable industries and producers in the West to take advantage of the opportunities presented by the major expansion of the western railway system" unquote.

The Western Transportation Initiative did not fully meet Alberta's expectiations; however, it was viewed as a necessary first step toward continued agricultural growth and economic development.

The Alberta Government has maintained a consistent position for the last decade on the need to improve grain handling and value-added processing. Each proposal or initiative, including Bill C-155, has been evaluated in light of the Province's grain transportation policy. Central to this policy is the recognition of the need for a successful resolution of the Statutory Rate issue. The Province's guiding principles in developing their position with respect to Statutory Rate change have been:

- retention of the "Crow Benefit" for farmers;
- removal of disincentives to value-added processing;
- improvement in rail capacity and efficiency;
- provision of adequate revenue for railways relative to costs of moving grain;
- legislated and regulated rate formulas.

These principles reflect the complex and interrelated nature of the issues to be considered in the development of a comprehensive grain transportation policy. Sufficient rail capacity is essential to the Alberta Government's goal of economic development. However, investment will occur only if the railways are adequately compensated. Alberta's agricultural processing industry requires a freight rate structure that does not discriminate between the export of raw grains and products processed from those grains.

There is a noteworthy similarity between the Alberta Government principles and the federal government's policy objectives. Farm organizations across

Western Canada have generally accepted criteria similar to the Government of Alberta. In particular, commodity groups, farm organizations, crushers and grain companies have accepted that the Statutory Rate is a disadvantage to local value-added processing.

In 1982 and 1983 policy statements on Western rail transportation, the federal government announced objectives that formed part of a broad Western transportation policy. These objectives are not met by Bill C-155.

As such, Bill C-155 has major deficiencies which will render it ineffective in meeting the needs of agriculture and economic development in Western Canada.

First, Bill C-155 lacks both major guiding principles and a statement of policy. These must be included if the specific measures proposed in the Bill are to be relevant to longer-term goals and the results achieved are to be subject to valid evaluation.

Second, the Bill's critical shortcoming is that it does not address the opportunities for economic diversification in Western Canada. The Bill does nothing to ease or to correct distortions and disincentives associated with the Statutory Rate. In fact, raw products and jobs will continue to be exported from Western Canada. This is not acceptable.

Third, Bill C-155 ignores the comprehensive approach required to resolve grain transportation issues. Rather, it addresses transportation capacity on an ad-hoc basis. This is a stop-gap measure which most responsible parties

have rejected as a long-term solution. Funds should be directed toward two ends: increased rail capacity and improved grain system efficiency and performance.

Fourth, the Bill does not adequately address producers' concerns regarding their ability to pay. Grain producers are already caught between depressed prices and rising costs. It is unacceptable to place a further burden on them. Immediate producer protection must be included in the legislation.

The federal government's February 1, 1983 policy decision, the Western Transportation Initiative, suggested a solution to the Western problems. I quote:

> "A system of payment to producers would provide increased scope for economic decision making by individuals and, in consequence, give more play to marketing forces. Of particular importance is that it would reduce existing economic distortions and, in the medium term, should lead to growth and efficiency in the grain transportation system" unquote.

Under Bill C-155 the entire Crow Benefit would be paid directly to the railways; thus the effective freight rate for grain will remain below the true cost of transporting grain. The Government of Alberta must therefore conclude that the Federal Government has abandoned its objectives to reduce existing economic distortions and to improve growth and efficiency in the grain transportation system.

At this point, it seems useful for me to pause and point out that the activities of the Government of Alberta in grain handling and transportation have not been restricted to the provision of advice to those involved in the

business. We have recognized the importance of the grain industry in Alberta through significant provincial programs. The establishment of a barley futures market, the purchase of one thousand hopper cars which remain in use throughout western Canada, and the financing of the majority of the cost of the Prince Rupert terminal are projects which transcend our borders and make a western Canadian contribution. (I see that efforts have been made to ensure port parity is a reality for Prince Rupert, and I urge you to ensure that those provisions remain).

The purchase of the three former federal government inland terminals and their operation for Alberta farmers is a more specific example of our commitment to grain handling and transportation at the Alberta level. And we can add to that our activities in grain production research, extension, marketing and policy analysis which is respected across Canada.

So we speak to this Committee as a government that has an impressive record of contribution to grain related projects which have directly benefited not just Albertans but all Canadians. It is therefore with some sadness that we see the federal government making a mistake on the method of payment issue. That mistake, the payment of all Crow benefit moneys directly to the railways, is the reason why with some reluctance, we attempted to develop a compromise approach to the issue. It was our hope that we could avoid some of the damage that the pay-the-railways approach does to the potential for the development of our agricultural economy and to reduce the divisions and tensions created amongst producers by Bill C-155.

Between the Government of Alberta and major farm organizations, a proposal was developed to reduce domestic grain pricing distortion and minimize dilution of the Crow Benefit.

you are no doubt aware, the proposal has not been supported by all organizations at the delegate level, but it is nonetheless a viable, workable approach for distribution of the Crow Benefit. The ideas within the proposal are capable of further refinement and negotiation, and it is my hope that the Committee will build on those concepts and continue to search for compromise.

An important element of this proposal is that regardless of the payment method the farmer chooses, the railway must publish a compensatory rate for all shipping points. This would help remove grain pricing distortion.

Two key factors were considered. First, it was agreed that payment of the Crow Benefit directly to the railways would not significantly reduce distortion. In other words, Alberta grain prices are established on international markets and are fundamentally related to the price of grain in export position less the cost of transportation. Since grain transport costs have been kept artificially low due to the Statutory Rate, local grain buyers pay artificially high or distorted grain prices.

Second, it was agreed that proposed methods for paying the Crow Benefit to all producers caused a dilution effect. Dilution would result because a larger volume of grain would become eligible for the Crow Benefit. Since the Crow Benefit currently applies only to grain shipped under the Statutory Rate, increasing the volume of grain eligible for the Benefit would dilute the Benefit for producers shipping under the Statutory Rate.

The proposal, referred to as "Double 80", encompasses a direct payment to the railways or, if the farmer chooses, a direct payment to the producer.

In keeping with the February 21, 1983 Western Transportation Initiative, the $204 million in Agricultural Adjustment Payments should be provided by the federal government between 1983 and 1986. These payments would further offset the dilution effect.

Figure 1 in our brief presents the proportion and distribution of the Crow Benefit under "Double 80".

Turning to other issues, Mr. Chairman, it is fundamental that in return for adequate compensation the railways be required to provide meaningful investment, performance and service guarantees. The new legislation must also promote efficiency and economy throughout the grain handling and transportation system. Bill C-155 does not adequately address these needs. The most important consideration is efficiency.

Under Bill C-155, rules and regulations will continue to replace normal pricing signals in allocating transportation resources. Such regulation of the system will not allow the pricing mechanism to reflect new efficiencies. Only the federal government will be in a position to benefit from future railway cost savings. There is no incentive for farmers or grain companies to invest in improvement and expansion of the grain system as there will be no sharing of cost savings.

In addition, in the grain handling and transportation system, decision making is separate from funding responsibility. If the system is to work efficiently and be accountable, there must be a clear delegation of authority. In all other major transportation systems a "shipper" represents user needs. Bill C-155 recognizes this shortcoming and establishes a 21 member committee.

Unfortunately, the committee is weighted heavily toward those groups and organizations who have a vested interest in the status quo and has no delegated authority to ensure system performance. A "shipper" must be designated to be responsible for farmers' interests by dealing with railways in establishing freight rates and coordinating shipments. Under Bill C-155 the most appropriate person to fulfill this function would be the Grain Transportation Administrator.

The combination of an agent responsible for their interests and the ability to choose to receive the Crow Benefit directly allows farmers to influence system efficiency.

Now, on the matter of future cost sharing, we note that the total cost of grain transportation will be shared between the federal government and Western grain farmers. Farmers do not have the same ability as the federal government to increase their incomes or to deficit finance. In marketing agricultural commodities, the farmer must accept whatever the market offers.

The railways have been essentially guaranteed the cost of transporting grain. Each year, regardless of tonnage hauled and commodity value, the railways' costs for moving grain will be calculated and a rate established to cover those costs.

Forcing producers to bear the first 6 percent of future cost increases without considering their ability to pay does not appear to be an equitable sharing of rail cost increases. As there is doubt that farmers will be able to pay higher freight rates, Bill C-155 should provide for a 4.5 percent limit on the producers' share of future cost increases for the period after 1985-86.

Future reviews would then determine if the limit should be altered.

The Government of Alberta is also concerned with the limitations placed on grain shipments eligible for the Crow Benefit. Farmers will have to bear all costs for grain shipments in excess of 31.1 million tonnes, a figure which we will already see exceeded in the 1982-83 crop year. It seems unneccesary to add that it is a contradiction to charge more for extra production when the goal is to increase export sales.

To protect against financially burdensome freight rates, the federal government has indicated a willingness to consider a "safety net" provision that would limit farmers' exposure to the risk of higher freight costs vis-a-vis grain returns. The federal proposal is to have freight charges limited to 10 percent of a weighted average price for a "basket" of western grains. This limit would represent the historical relationship that freight rates have had with grain prices, thereby maintaining farmers' traditional costs/returns ratio insofar as transportation is concerned.

An alternative safety net is recommended for consideration. This alternative is consistent with the railways' value-of-service pricing used for captive shippers. Such a system would recognize the need to place a ceiling on the contribution grain shipments would make to railway constant costs. In years where grain prices drop dramatically, the grain freight rates charged the producer would decline, but not below railway variable costs. Conversely, in years when grain prices are high, the rates would reflect the full contribution to constant costs allowed the railways.

The construction of a safety net based on value-of-service pricing has a

number of advantages. Most important, it would provide lasting protection to farmers. Proposals calling for grain rates to remain at a fixed percentage of grain prices could become a growing financial burden on the federal government. As such, they might be eliminated, leaving the farmer unprotected. A second important advantage is that this form of safety net can take effect immediately.

Mr. Chairman, let me make one further suggestion before I summarize our position. There are matters within the rate structure itself which your committee should examine, particularly the rate "taper" which adversely affects the Peace River country. The bill must, at the minimum, include a way to change the rate structure to prevent any undue impact on Peace River area producers, who will be unfairly punished as a result of their distance from market. Without a pay the producer approach to distributing the Crow benefit, it seems much more difficult to offset that effect under this bill. (I might add that our Double 80 proposal would be of assistance in resolving the "new lands" issue that was of concern to Peace area farmers under previous pay the producer proposals). You should also ensure that the importance of the BCR to Peace area farmers is not forgotten, and prevent higher rates being charged just because grain might have to be exchanged between the BCR and the CNR.

In a spirit of compromise it should be possible to build a significant degree of consensus on the need for change in the Statutory Rate and the need to meet the objectives originally proposed by the federal government.

grain transportation efficiency and economic development in Western Canada:

Statement of Policy

Bill C-155 should be amended to include a statement of policy based upon the objectives put forth in the federal Western Transportation Initiative of February 1983.

Payment Mechanism

Producers should be allowed to decide the method by which they receive the Crow Benefit and the federal share of cost increases.

Grain System Performance

The Senior Grain Transportation Committee should be restructured so that a majority of the members represent Western farmers and are free from vested interest in the grain handling/transportation system.

Grain System Efficiency

The Grain Transportation Administrator should act as a "shipper" with sufficient authority to act on behalf of farmers.

Grain System Investment

The railways should be required to publish annual detailed statements of source and application of funds and investment intentions.

The Safety Net

A "safety net" based on value-of-service pricing should be instituted.

Future Cost-Sharing

Farmers' share of inflation should initially be limited to 4.5 percent.

Limitations on Shipments

The federal government's Crow Benefit limit of 31.1 million tonnes should be removed.

Reviews

A review of all federal acts, institutions and regulations which govern the operation of the grain system should be undertaken every five years.

You may wish to refer to the technical appendices contained in our brief for further detail on the amendments we propose.

Mr. Chairman, I thank you for the opportunity to address your Committee and to urge upon you consideration of changes which are clearly required if the result of Bill C-155 is to have the positive effect we all hope for in Crow Reform. I wish you every success in your deliberations.

If you have any questions concerning our position or of any of the matters in our brief I would be pleased to deal with them at your pleasure.